

FISCAL NOTE

Bill #: SB370 **Title:** Detention officers included in sheriff's retirement system

Primary Sponsor: Carolyn Squires **Status:** As Introduced - Revised

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$51,013	\$77,685
State Special Revenue	27,191	27,191
Revenue:		
Other (SRS Pension Trust Fund)	\$620,573	\$646,947
Net Impact on General Fund Balance:	(\$51,013)	(\$50,494)

- | | |
|---|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Montana Public Employees' Retirement Association

1. This is the only provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
2. There is an impact to all counties that employ detention officers.
3. There is an impact to the Sheriff's Retirement System (SRS). There will be a minimal impact to the Public Employees' Retirement System (PERS).
4. This fiscal note is based on the findings in the 2004 actuarial valuation and the funded position of the SRS as of June 30, 2004. The valuation determined that additional funding is necessary to amortize the Unfunded Actuarial Liability over 30 years.
5. Under this bill, detention officers hired after July 1, 2005 will become members in the SRS instead of the PERS.
6. It is assumed that all currently eligible detention officers, who are now PERS members, will elect to transfer from PERS to SRS.
7. It is assumed that, if PERS members are allowed to transfer service from PERS to SRS, the members will pay the actuarial cost to transfer the service.

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8. The employer contributions required of a county government will increase from 6.8 percent to 9.535 percent of covered payroll for each detention officer in the SRS, an increase of 2.735 percent. This requirement will continue into the future for all new hires.
9. Employee contributions will increase from 6.9 percent to 9.245 percent for those detention officers in the SRS, an increase of 2.345 percent.
10. State general fund contributions for PERS are 0.1 percent of salary. There are no state general fund contributions for SRS.
11. The actuary assumes the demographics for current eligible employees are the same as data gathered two years ago. The actuary modified this data to reflect an estimate of the current population of detention officers. The total number eligible was 403. The actual results of the transfers will be different based on the actual data and those employees determined to be eligible.
12. It is difficult to determine the applicability of this category of individuals. It includes all people who have full-time or part-time authority and responsibility for maintaining custody of inmates. PERS does not classify employees in a way that specifically identifies detention officers.
13. Salaries are projected to increase at a rate of 4.25 percent per year (general wage growth as determined by the Board's actuary). Detention officers' salaries are projected to total \$12,216,000 in FY 2006 and \$12,735,180 in FY 2007.
14. If all detention officers transfer to PERS from SRS, there will be a general fund savings of \$12,216 in FY 2006 and \$12,735 in FY 2007.
 - a. FY 2006 -- $\$12,216,000 \times 0.1 \text{ percent} = \$12,216$
 - b. FY 2007 -- $\$12,735,180 \times 0.1 \text{ percent} = \$12,735$
15. The SRS had a 30-year funding deficiency of 2.15 percent of salaries in FY 2004. With the inclusion of detention officers in the SRS, the funding deficiency increases to 2.25 percent of salaries, an increase of 0.10 percent.
16. The Montana constitution requires public retirement plans to be funded on an actuarially sound basis. To actuarially fund the SRS system, employer contributions would need to be increased by 0.10 percent.
17. The actuary does not expect new members to materially alter the total normal cost rate. However, if all of the current detention officers in the PERS elect to transfer, the normal cost will increase dramatically due to the higher current age of the transferees when compared to the average entry age of the current SRS active members. The normal cost rate (percent of members' salaries) increases from 19.44 percent to 19.98 percent, an increase of 0.54 percent.

Department of Corrections

18. This bill would allow the detention officers in the county jails to participate in the Sheriff's retirement system, which is an additional cost to the counties of 2.735 percent per each detention officer.
19. The result would include an additional cost to Department of Corrections (DOC) for per diem rates for housing offenders. DOC estimates that the increase would be approximately 2 percent.
20. In FY 2004, DOC paid \$3,161,426 to county jails. A 2 percent increase on this amount equals \$63,229 per year.

Department of Justice

21. If these costs are included in the calculations for establishing prisoner per diem rates for detention centers, it will affect the Montana Highway Patrol (MHP).
22. The MHP has a biennial appropriation of \$1,988,342 for the next biennium for detention costs. If the 2.735 percent employer contribution is included in the calculations, it will cost the MHP \$54,382 for the biennium or \$27,191 per year in additional costs.

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FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$90,420	\$90,420
Statutory Appropriation to PERS	<u>(12,216)</u>	<u>(12,735)</u>
TOTAL	\$78,204	\$77,685
<u>Funding of Expenditures:</u>		
General Fund	\$51,013	\$50,494
State Special Revenue	<u>27,191</u>	<u>27,191</u>
TOTAL	\$78,204	\$77,685
<u>Revenues:</u>		
Other (Sheriff's Retirement System)	\$620,573	\$646,947
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund	(\$51,013)	(\$50,494)
State Special Revenue	(27,191)	(27,191)
Other (Sheriff's Retirement System)	620,573	646,947

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This legislation will affect only county governments. Total employers' contributions for counties will increase depending on how many detention officers they employ. The table below shows the effect of increased contributions to the counties, based on data received two years ago and projected forward.

Effect of Increased Employer/Employee Contributions		
	FY 2006 Difference	FY 2007 Difference
Employer Contributions (Counties)	\$334,108	\$348,307
Employee Contributions	286,465	298,640
Total Contributions	\$620,573	\$646,947

LONG-RANGE IMPACTS:

Increased employer and employee contributions will continue as long as counties continue to employ detention officers.

TECHNICAL NOTES:

1. Changing the demographics of the system may require changes to the long-term actuarial assumptions. The effects of these changes may not be known for several years.
2. HB 148 increases the SRS employer contribution rate from 9.535 percent to 10.735 percent, an increase of 1.2 percent, in FY 2006. The rate is raised by another 1.2 percent in FY 2008, to 12.935 percent. This increase is required to fund the system on an actuarially sound basis. With the passage of HB 148, employer contributions to the SRS required for detention officers will increase by an additional \$146,592

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and \$152,823 for fiscal years 2006 and 2007, respectively. These increases, paid by county governments, would be in addition to those of \$334,108 and \$348,307 above. Additional increases would be required in the next biennium.

3. Actuarially funding the system requires 0.10 percent on total covered payroll (current SRS members and the detention officers). The additional amounts required are \$41,965 for FY 2006 and \$43,748 for FY 2007.
4. Based on the most recent funded status of the Sheriff's Retirement System, and the expectation of emerging investment losses in the future, the Board's actuary recommends that all new legislative proposals include a provision for financing the entire cost of the proposal.